

# LEGISLATIVE AUDIT COMMISSION



Review of  
Environmental Protection Agency  
Two Years Ended June 30, 1998

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**REVIEW: 4090**  
**ENVIRONMENTAL PROTECTION AGENCY**  
**TWO YEARS ENDED JUNE 30, 1998**

**FINDINGS/RECOMMENDATIONS - 7**

**ACCEPTED - 3**  
**IMPLEMENTED - 4**

**REPEATED RECOMMENDATIONS - 3**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 14**

This review summarizes an audit of the Illinois Environmental Protection Agency for the two years ended June 30, 1998, filed with the Legislative Audit Commission May 5, 1999. The auditors conducted a compliance audit and financial audit in accordance with the Single Audit Act and OMB Circular A-133. The auditors stated that the financial statements are fairly presented, except for the effect of such adjustments, if any, as might have been determined to be necessary had they been able to examine evidence regarding Year 2000 disclosures.

The Environmental Protection Agency (EPA) operates under the broad mandate of Article XI of the Illinois Constitution and the specified legislative charge of the Environmental Protection Act to "...establish a unified, State-wide program supplemented by private remedies, to restore, protect and enhance the quality of the environment, and to assure that adverse effects upon the environment are fully considered and borne by those who cause them."

The mission of the EPA is " . . . to safeguard environmental quality so as to protect health, welfare, property and quality of life." To carry out this mission, the Agency takes on several roles in a complex network of intergovernmental and public/private relations including: primary or secondary regulator; information generator; policy and technical advisor; financial provider and project sponsor; and change agent and promoter.

The EPA is organized into three Bureaus: Air, Water, and Land. The Agency has laboratory facilities in Chicago, Champaign, and Springfield. Regional offices are located in Rockford, Maywood, Elgin, Elk Grove, Peoria, Springfield, Champaign, Collinsville, and Marion.

Mary A. Gade was the Director of the Illinois Environmental Protection Agency during the audit period. Thomas Skinner was appointed Director in January 1999.

The average number of employees during the fiscal years indicated was:

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1998 - 1,219;

1997 - 1,232;

1996 – 1,240.

### **Expenditures From Appropriations**

Appendix A presents a summary of appropriations and expenditures for the two-year period under review. The Agency receives appropriations from 24 different funds, including the General Revenue Fund. Total expenditures decreased from \$320,269,948 in FY97 to \$317,787,725 in FY98, a decrease of \$51,517,777, or 16%.

In FY98, the Agency moved the majority of the Springfield operations into one facility. The facility is being acquired by the State through a certificate of participation.

Examples of significant variations in expenditures include:

- \$4.2 million in FY98 to make the State's final required contribution to the Great Lakes Protection Fund;
- \$2.2 million in FY98 to the Division of Land Pollution Control for the Bensenville & Seton landfill project;
- \$9.5 million in FY98 to the Bureau of Water for grants to municipalities for infrastructure improvements;
- \$26.4 million increase in FY97 to reduce the backlog of claims for the Underground Storage Tank Fund and a \$13.1 million decrease in the fund in FY98 to reflect the reduced level of expected revenues available to pay claims; and
- \$20.8 million increase in FY98 in the Vehicle Inspection Fund to institute the enhanced vehicle emission testing program required by the federal Clean Air Act.

The auditors stated that their review of lapse period expenditures disclosed no evidence of improper expenditures during the period.

### **Cash Receipts**

Appearing in Appendix B is a summary of cash receipts of the Agency for FY98, FY97, and FY96. Cash receipts increased from \$186,439,156 in FY96 to \$259,244,575 in FY98. Receipts from grants and loan repayments to the Water Pollution Control Fund increased \$53.1 million from FY96 to FY97 and \$33.3 million from FY96 to FY98.

### **Property and Equipment**

The summary of property and equipment transactions of the Illinois Environmental Protection Agency is limited solely to equipment. The balance increased from \$24,964,403 as of June 30, 1996, to \$30,544,485 as of June 30, 1998, an increase of \$5.6 million, or 22.4%.

### **Accounts Receivable**

Appendix C also shows a summary of the Agency's accounts receivable which was \$9.5 million at June 30, 1998. Receivables were \$6.1 million at June 30, 1996, so the increase is about \$3.6 million, or 59%. This amount includes billings from the Air Pollution Control Division for permit and inspection fees, the Public Water Supply Division for lab fees, and Hazardous Waste Recovery fees. 40% of the accounts receivable balance is due the Hazardous Waste Fund. Of the \$9.5 million accounts receivable, \$1.85 million, or 19.5%, is over 180 days past due, and \$6.7 million, or 70%, is current.

### **Annual Statistics**

Appendix D provides a summary of selected activity measures at the Agency. Included are the number of vehicles tested for air pollution control, the number of underground storage tank cleanups initiated and completed, and the number of water pollution control facilities inspected.

### **Accountants' Findings and Recommendations**

Condensed below are the seven findings and recommendations presented in the audit report. There were three repeated recommendations. The following recommendations are classified on the basis of information provided by Thomas V. Skinner, Director, in a letter dated October 7, 1999.

#### **Accepted**

#### **5. Implement procedures to ensure employee performance evaluations are performed on a timely basis. (Repeated-1994)**

**Findings:** The Agency did not conduct employee performance evaluations on a timely basis. The auditors noted that 14 of 25 employees tested did not have a performance evaluation performed on a timely basis. Performance evaluations should serve as a foundation for salary adjustments, promotions, demotions, discharge, layoff, recall and reinstatement decisions.

**Response:** Accepted. The EPA will re-emphasize, to all Agency managers, the importance of performing evaluations as required on a timely basis. The Agency has a system in place that notifies managers of a late evaluation.

**6. Complete reviews all major systems of internal accounting and administrative control at least once every two years as required by State law. (Repeated-1996)**

**Accepted - continued**

**Findings:** Internal Audit has not completed adequate reviews of five significant internal control systems as required by the Fiscal Control and Internal Auditing Act (FCIAA). In addition, reviews performed over EDP did not provide sufficiently detailed testing of the control system. State law requires the Agency to perform audits of major systems of internal accounting and administrative control on a periodic basis so that all major accounting systems are reviewed at least once every two years. Of the 10 internal control systems applicable to the Agency, reviews of the administrative support services, purchasing, personnel and payroll, revenue and EDP systems were not completed. These systems are significant to the operations and functions of the Agency.

During the audit period, a total of eight audits were in progress or completed that were considered special audits. These audits, although valuable management tools, do not meet the requirements relating to audits of major internal accounting and administrative control systems. Five audits of control systems were started during the audit period, but not completed by the end of the audit fieldwork. As a result, certain significant internal control systems were not adequately tested.

Agency management stated that every effort is made to comply with FCIAA requirements. However, efforts made by the internal audit staff in reviewing overtime abuse and a related criminal case resulted in significant reduction of overtime cost. A review of inappropriate billings by an engineering firm resulted in the disallowance of more than \$262,000 in billings.

**Response:** Accepted. The EPA will continue to make the necessary adjustment in audit coverage to ensure that all significant control systems are audited while continuing to provide management with meaningful reviews of program operations.

**7. Provide an effective disaster contingency plan for reacting to disasters. Update the plan to address current information systems environment. (Repeated-1996)**

**Findings:** The EPA does not have an adequate plan for reacting to disasters concerning its information systems. The Agency has approximately \$7.6 million of computer equipment, including 1,274 microcomputers connected to LANs, located throughout the state. The Agency's disaster contingency plan is dated October 1992. The plan does not include recovery procedures for LANs. The plan is required to be reviewed and tested annually, but no tests or updates to the plan have been made since June 1993. Also, the plan stated that the agency would begin negotiations for an alternative work site with the Department of Public Aid to provide limited systems and programming support.

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No agreement has been finalized. The plan does not contain current address and phone information for all essential personnel.

A written and tested disaster recover plan can greatly assist management in coping with service disruptions resulting from fires, floods, power failures, etc.

**Response:** Accepted. All network servers have been centralized into a single computer room to provide efficiency of operations, automated backup, and adequate physical and network security. The Agency has installed an enterprise-side backup system that provides recovery capabilities for all network components except individual PC's. Work on a disaster recovery plan has been delayed by Y2K efforts; however, the Agency intends to use out Y2K contingency planning as a template for disaster recovery. The draft plan is anticipated by September 1, 2000.

### **Implemented**

#### **1. Establish adequate procedures to ensure that indirect cost proposals are filed on a timely basis.**

**Findings:** The Agency did not submit an indirect cost rate proposal on a timely basis resulting in delayed reimbursement of indirect costs and lost interest earnings for the State. The Agency did not prepare and submit an indirect cost rate proposal to the U.S. EPA for FY98 until January 1998. The proposal for FY98 was due prior to January 1997 and projections should have based on FY96 costs. The Agency was prohibited from claiming reimbursement for indirect costs pending approval of the rate. Loss of interest income on the delayed reimbursement of \$3,395,000 exceeded \$6,000.

**Response:** Implemented. The late submissions were due to insufficient staff resources. The Agency hired a consultant to assist in preparing the Agency's FY00 proposal and it was submitted prior to the deadline and an approved indirect cost rate agreement was received on June 29, 1999. The Agency has retained a consultant for the FY01 and FY02 proposals.

#### **2. Implement adequate year-end procedures to ensure GAAP reporting is accurate and submissions are made timely.**

**Findings:** The Agency did not follow prescribed procedures in filing year-end GAAP reporting forms with the Office of the Comptroller. These deficiencies were noted:

- The Agency did not use a reasonable estimation approach to estimate accounts payable and therefore overestimated August 1998 accounts payable by approximately \$602,000; and

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- The Federal Financial Assistance-Intergovernmental Receivables/Federal Revenue forms for the GAAP packages were not filed timely.

As a result of these deficiencies, the GAAP packages overstated accounts payable by approximately \$3,140,000, federal receipts and disbursements may be misstated and information is not available to prepare the Agency's financial statements.

**Response:** Implemented. All FY99 GAAP submissions were timely filed.  
**Implemented - concluded**

### **3. Establish and implement adequate controls to ensure that vendor invoice information is consistently entered into the system and that pre-audit procedures utilize the required SAMS procedures.**

**Findings:** The Agency did not establish controls sufficient to prevent all duplicate payment of vendor invoices. 42 duplicate payments in FY97 and FY98 totaling more than \$59,000 were made to vendors. Differences in inputting procedures in the newly acquired DCMS system resulted in the duplication. All vouchers should be examined by the Agency head or designated individual to determine legality and propriety of a proposed transaction. The amount above represents only known duplicate payments. Additional duplicate payments would have been made and gone undetected or unreported due to the weaknesses in controls.

**Response:** Implemented. Duplicate payments in FY99 were reduced to nine instances. Improved review procedures were adopted for all steps in the payment process. The Agency is working on additional computerized controls to further reduce the possibility of duplicate payments.

### **4. Review accounts receivable on a quarterly basis to determine if the allowance for uncollectible accounts adequately reflects the amounts.**

**Findings:** The Agency did not adequately allow for estimated uncollectible accounts receivable. The Agency accounts receivable balance at June 30, 1998 was \$9,515,000 with an allowance for uncollectible accounts of \$198,000. The auditors determined that \$1,044,000 should be reserved as estimated uncollectible accounts. Agency personnel state that during the audit period, the Agency did not have formal procedures to ensure that all offices/bureaus routinely reported on the amounts of accounts receivable estimate to be uncollectible.

**Response:** Implemented. Individual accounts are now reviewed on a quarterly basis by program, legal and fiscal staff to more adequately assess the probabilities of collection of established receivables.



### **Emergency Purchases**

The Illinois Purchasing Act (30 ILCS 505/1) states that “the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts ...” The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies “involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records.” State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY97, the Agency filed one affidavit for an emergency purchase of \$7,434.92 to clean up roof leak damage. In FY98 the Agency did not file any affidavits for emergency purchases.

### **Headquarters Designations**

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

The Environmental Protection Agency indicated on July 15, 1998 that the Agency had 43 employees assigned to locations other than official headquarters.









